招銀国际
CMB INTERNATIONAL

16 Jun 2023

CMBI Credit Commentary

Fixed Income Daily Market Update 固定收益部市场日报

- *Markets were two-way balanced and skewed to selling this morning. Front-end LGFV/SOE Perp were heavy especially for those with low yields. Long-term names continued to be better buying and flows were mainly from Chinese buyers.*

- ***China Economy – Growth remains weak with possible moderate policy easing.*** *CMBI expects the GDP to grow 7.6% YoY with its 2Y CAGR at 3.9% in 2Q23 and maintains the forecast on 2023 GDP growth at 5.7%, with the 2Y CAGR at 4.3%. See below for comments from our economic research.*

- ***FUTLAN/FTLNHD:*** *Issued 2-tranche onshore, credit-enhanced corporate bonds of RMB1.1bn. The coupon rates are 4.5% and 6.3%. Seazen is 1 of the only 2 non state-owned developers to issue onshore corporate bonds YTD. We maintain Buy on FUTLANs/FTLNHDs which moved -0.5 to +3pts this morning after moved up 1.75-3.75pts yesterday .* *See our comments on 1 Jun'23.*

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❖ Trading desk comments 交易台市场观点

Yesterday, the Fed left the rate unchanged as expected with a dot plot implying two, instead of one additional rate hikes by the end of 2023. PBOC cut MLF rate by 10bps, two days after it lowered the 7D reverse-repo rate and SLF rates by 10bps. Asia ex JP IG spreads closed unchanged to 3bps tighter with better buying flows. In Chinese SOEs, CHITRA 29s/CHGRID 30s were better bid. TMT benchmarks BABA/BIDU/TENCNT closed unchanged to 2bps tighter with fairly balanced two-way interests. BBB TMTs such as WBs/MEITUAs tightened 2-4bps. In financials, BOCAVI 28s/33s edged 1-3bps tighter to T+103, and T+135, respectively. In AMCs, CCAMCLs/ORIEASs were traded 5bps tighter. The bank T2s broadly tightened 2bps. Chinese bank AT1 space were better offered. Meanwhile HSBC/STANLN AT1s declined 0.5-1pt on back of AM selling. In Korea IG space, HYUELE/KOHNPW papers were still under better buying. Chinese properties performed strongly. FUTLANs/FTLNHDs were traded up 1.75-3.75pts. Seazen Holdings raised RMB1.1bn from 2-tranche credit-enhanced domestic bonds at coupon rates of 4.5% and 6.3%. COGARDs were up 1-4pts. LNGFORs/YLLGSPs were traded 1.5-3.5pts. AGILEs/GRNLGRs were down 0.5pt. Media reported that holders of GRNLGR 5.6 11/13/24 yet to receive 15 May coupon. In industrials, AACTEC 26s/31s gained 0.75-2.75pts. EHICAR 26s/WESCHI 26s/ANTOIL 25s were marked 0.5pt higher. TSINGHs, however, were quoted 3.75pts lower. Macau gaming papers MPEL/SANLTD/WYNMAC 27-29s moved 0.25-0.5pt higher. In Indian space, VEDLN 24s were traded 1.25pts higher and its 25s/26s were up around 0.5pt. Renewables RPVINs rose 0.25-0.5pt. Indonesian names MEDCIJs/LPKRIJs were bid up around 0.5pt. Elsewhere, GLPCHI 24s/26s were traded unchanged to 1pt higher.

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The LGFV/Perp spaces had a constructive day. The market appeared to have taken some comfort from the peaking policy rates. We saw deployment buying gradually recovered, with AMs/Prop desks picking up LGFV 23s/24s papers at ~6% switched out from banks for longer duration. That said, it still takes time to digest the vast loose bonds of 23s LGFVs papers accumulated in the past month. Yunnan names KMCMIN/KNMIDI were marked down another 2.5pts with staled prices. Shandong names remained active. SHGUOH/SHUGRP 24s were traded 0.25-0.5pt lower. SOE Perps were overall stable despite mixed-technicals name by name. HUADIA/SINOCH perps moved 0.125pt lower.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
COGARD 5.4 05/27/25	**53.4**	**4.0**
FTLNHD 4 5/8 10/15/25	**60.5**	**3.8**
TSINGH 5 3/8 01/31/23	**49.4**	**3.8**
TSINGH 6 1/2 01/31/28	**49.4**	**3.8**
FTLNHD 4.8 12/15/24	**75.3**	**3.6**

Top Underperformers	Price	Change
XIAQUJ 5 1/2 11/19/23	**90.0**	**-2.5**
KNMIDI 5 1/2 10/09/23	**91.0**	**-2.5**
KMCMIN 7 06/22/23	**95.0**	**-2.5**
PCPDC 5 1/8 06/18/26	**67.0**	**-1.5**
REGH 6 1/2 PERP	**59.0**	**-1.5**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+1.22%), Dow (+1.26%) and Nasdaq (+1.15%) railed higher on Thursday as markets bet on no further interest rate hike by the end of 2023. US latest initial jobless claim was +262k, higher than expectation of +250k. ECB raised interest rate by 25bps to 4.0% as expected. The US treasury yields were overall down yesterday, the 2/5/10/30 yield reached 4.62%/3.91%/3.72%/3.85%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ China Economy – Growth remains weak with possible moderate policy easing

China economy remained weak in May, which is in line with expectations. Property market was sluggish with continuous slump of housing starts and further slowdown of development investment as most private developers "lied flat" without land purchasing. Retail sales softened with mixed performance in different sectors. Catering service, clothing and home appliance weakened, housing-related durables remained weak, while staples, telecom equipment and autos strongly improved. Service activity recovered better than manufacturing output as service sector has absorbed over 60% of SMEs and urban employment and been important for employment & consumer confidence restoration. We expect both housing market and household consumption may gradually improve in next few quarters thanks to the continuous recovery of service sector. FAI is expected to slow down as private business confidence recovers very slowly and LGFVs and SOEs become more cautious to expand their debt. To boost economic growth, the policymakers may further cut LPR by 10bps, allow moderate property policy easing in more cities, provide additional fiscal subsidy & tax credit for hard technologies, high-end manufacturing and small business, encourage municipal governments to provide coupons to consumers and further float renminbi exchange rates to boost exports and improve domestic policy autonomy. We expect the GDP to grow 7.6% YoY with its 2Y CAGR at 3.9% in 2Q23, compared to the YoY growth of 4.5% and 2Y CAGR of 4.6% in 1Q23. We maintain our forecast on 2023 GDP growth at 5.7%, with the 2Y CAGR at 4.3%.

Property market remained weak with possible further easing of housing policy. The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 0.9% and 22.6% YoY (all on YoY basis unless otherwise specified) in 5M23 after decreasing 0.4% and 21.2% in 4M23. Property development investment further declined 7.2% in 5M23 after dropping 6.2% in the 4M23. In terms of 2Y CAGR, the GFA sold and GFA started declined 11.2% and 23.8% in 5M23 after edging down 8% and 18.4% in 4M23. Potential housing supply has shrunk more significantly than housing demand as the rebalance should alleviate downside pressure on housing price in the medium term. However, the continuous slump of housing starts indicates property development investment may further decrease with downside pressure on economic growth in the short term. Property developers remained cautious to purchase land while banks were still cautious to supply credit to most private-owned developers. Loan fund in property developers' funding source for development investment continued to drop 10.5% in 5M23 after declining 10% in 4M23. Thanks to the improvement of housing sales in 1Q23, deposit & advance payment and individual mortgage fund in developers' source of funds for development investment respectively picked up 4.4% and 6.5% in 5M23 after dropping 2.8% and 2.9%. Looking forward, we expect housing sales may see moderate improvement in 2H23 as the PBOC may further ease credit policy and more cities are likely to follow Qingdao to moderately loosen housing policies (e.g. moderate cuts in down-payment ratios and mortgage rates). Property development investment may mildly shrink its YoY declines in the second half year. We expect property development investment to drop 3.5% in 2023.

Retail sales softened as consumer confidence remained weak. The YoY growth of retail sales declined to 12.7% in May from 18.4% in April. Its 2Y CAGR reached 2.5% in May, slightly down from 2.6% in April. Catering service, clothing and home appliance weakened as their 2Y CAGRs respectively declined from 5.4%,1.1%, -1.9% and 9% in April to 3.2%, -0.7%, -5.4% and 6.2% in May. Housing-related durables and electronics remained weak as furniture, construction & decoration materials and cultural & office products respectively dropped 4%, 11.3% and 2.3% in May after declining 5.7%, 11.5% and 4.9% in April, in term of 2Y CAGRs. However, staples steadily recovered as the 2Y CAGRs of beverage, alcohol & tobacco product and medicine respectively rose from 1.2%, 3.4% and 5.8% in April to 3.4%, 6.2% and 8.9% in May. Telecom equipment and auto showed amazing improvement as their 2Y CAGRs jumped from -5.3% and -2.8% in April to 8.4% and 2.1% in May. Looking forward, retail sales may gradually improve as housing market stabilization and service consumption recovery should support employment condition and consumer confidence in next few quarters.

Service recovered better than manufacturing as the former is of great importance for employment and consumer confidence restoration. Service output index picked up 9.1% in May after rising 8.4% in April, while the YoY growth of value added industrial output (VAIO) slowed from 5.6% in April to 3.5% in May. In term of 2Y CAGRs, service output index and VAIO respectively rose 2.1% and 3% in May compared to 1.3% and 3.2% in April. In service sector, transportation, telecom service and internet & IT service had good sentiment while capital market service and real estate service was weak. In manufacturing sector, output in textile, medicine, construction material, steel product, metal product and general purpose equipment was weak as exports sharply slowed and housing market activity and business capex remained sluggish. However, output in chemical product, nonferrous metal, auto and electrical material & equipment improved noticeably as related industries benefited from the energy transition revolution in the worldwide. Looking forward, the continuous recovery of service sector should support a gradual improvement of employment condition and consumer confidence. The service sector has absorbed over 60% of SMEs and urban employment in China.

FAI continued to slow down as private business confidence remained weak and local governments faced contingent debt pressure. The YoY growth of FAI slipped to 2.2% in May from 3.9% in April. Property sector was the largest drag as property development investment fell by 10.2% in May compared to 7.2% decline in April. Most private developers "lied flat" and stopped land purchasing, indicating a very slow recovery of property development investment ahead. The YoY growth of FAI in manufacturing slowed down from 7% in 1Q23 to 5.3% in April and 5.1% in May. Looking forward, chemical product, auto and electrical material & equipment may maintain strong FAI growth as the energy transition and smart technology revolution boosts business capex in those sectors. However, most other manufacturing industries are likely to see a gradual slowdown of FAI due to continuous slowdown in demand growth as well as uncertainty in domestic policy and geopolitics. The YoY growth of infrastructure investment rose from 7.9% in April to 10.7% in May, thanks to strong performance in public utility, railway transportation, water conservancy management and health service. However, fixed investment in public facility management and cultural, sports & recreational service was weak.

Looking forward, we expect infrastructure investment may gradually slow down as land markets in most regions recover very slowly and the policymakers start to control local government contingent debt expansion. We cut our forecast for the FAI growth in 2023 from 5% to 4%.

China may launch moderate policy easing to boost economic growth. China economy has continued to weaken with continuous deflation pressure in recent three months. The recent property policy loosening in Qingdao and repo refinancing and MLF rate cuts by the PBOC indicates China may launch moderate policy easing ahead to boost economic growth. We expect to see the following supportive policies ahead: i) LPR cut by 10bps on 20 Jun with additional downside pressure on all contract loan rates; ii) moderate easing of property policies in more cities driven by local governments; iii) more fiscal subsidy and tax credit for hard technologies, high-end manufacturing industries and small businesses; iv) coupons to consumers in several cities provided by municipal governments; v) more flexibility for renminbi fluctuations to support exports and improve domestic policy autonomy in US Fed tightening cycle.

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- **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Bank of China New York	500	3yr	4.625%	T+45	A1/A/A

- **Offshore Asia New Issues (Pipeline)**

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
NongHyup Bank	USD	-	5yr	-	-/-/-

- **News and market color**

- Regarding onshore primary issuances, there were 120 credit bonds issued yesterday with an amount of RMB103bn. As for Month-to-date, 1,000 credit bonds were issued with a total amount of RMB963bn raised, representing a 24.8% yoy increase
- **[AZUPOE]** Media reported that Azure Power may trigger a delisting from NY stock exchange if it cannot publish FY22 audited financials by the extended 15 Jul'23
- **[FUTLAN]** Seazen Holdings schedules interest payment for RMB780mn 21Xinkong01 bonds on 22 Jun
- **[GRNLGR]** Media reported that holders of GRNLGR 5.6 11/13/24 yet to receive 15 May coupon as of 15 Jun
- **[GXCMIN]** Guangxi Communications Investment paid interest due 15 Jun of its RMB1.5bn onshore notes
- **[JD]** Media reported that JD expects sales rebound in 2Q23 after its USD1.4bn discount program

- **[RONXIN]** Media reported that Ronshine got approval from holders of final two tranches for holistic domestic bond restructuring

- **[YNCING]** Yunnan Construction & Investment schedules redemption of RMB1bn bills on 26 Jun

- **[YUNINV]** Yunnan Provincial Investment schedules interest payment for RMB1bn 21YuntouMTN002 notes on 22 Jun

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